

MARKET REPORT

Office
Cleveland Metro Area

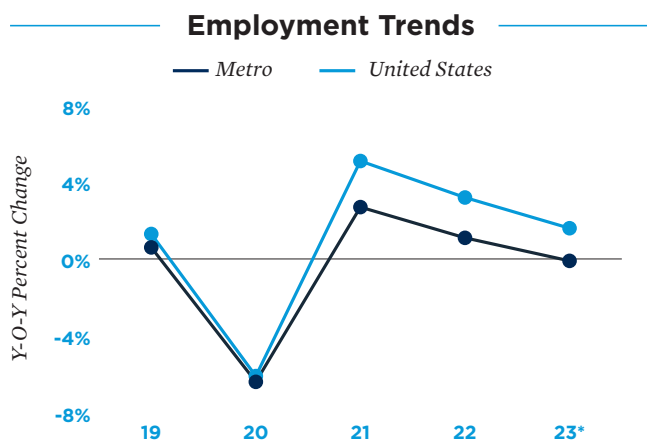
IPA
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PROPERTY
ADVISORS

4Q/23

Office-to-Apartment Conversions Aid CBD Vacancy, While Suburbs Register the Majority of Demand

Upward pressure on vacancy slowed by redevelopment. Entering the third quarter, Cleveland was home to the lowest office vacancy among major Midwest markets at 12.1 percent. Sub-1 percent inventory growth for 14 consecutive years, and many successful office-to-residential conversions, continue to steer traditional office-using firms to existing spaces. The metro is a leader in office redevelopment, with nearly 2,700 apartments currently planned to be created from adaptive reuse. As obsolete office space continues to be taken off the market and new supply remains limited, vacancy pressure will ease long-term, particularly as companies solidify their long-term office requirements. Sherwin-Williams has already reinforced the company's dedication to maintain an in-person workforce in Cleveland, as the firm decided to move forward with a new global headquarters that is slated to deliver downtown next year.

Most suburbs outperform downtown. Demand in outer areas was more consistent than the CBD during the first six months of the year, evidenced by less suburban space becoming available. This trend has been significant as the suburbs have an inventory total roughly double that of the CBD. In June, Stark County, East, West and Southwest Cleveland all boasted vacancy below the overall metric, with each area's rate at least 110 basis points below the CBD's mark of 12.4 percent. Limited incoming supply additions also mean these areas are well-positioned to continue outperforming.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**1,000
JOBS**
will be lost

EMPLOYMENT:

Total metro employment will contract by 0.1 percent in 2023. The reduction in positions will stem from office-using fields. During the first eight months of the year, the sector recorded a net loss of over 3,000 roles.



**514,000
SQ. FT.**
will be completed

CONSTRUCTION:

For just the fourth time in the past decade, developers add more than half a million square feet, increasing inventory by 0.5 percent. The CBIZ building in Independence will account for 150,000 square feet of new space.



**100
BASIS POINT**
increase in vacancy

VACANCY:

Roughly 700,000 square feet is expected to come back to market on net this year, an improvement over 2022's figure of nearly 1.5 million square feet. Nevertheless, vacancy will still increase to 12.3 percent.

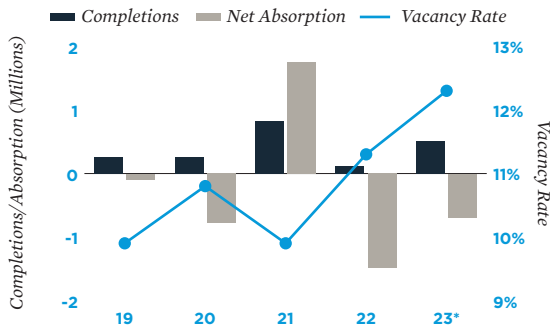


**0.2%
INCREASE**
in asking rent

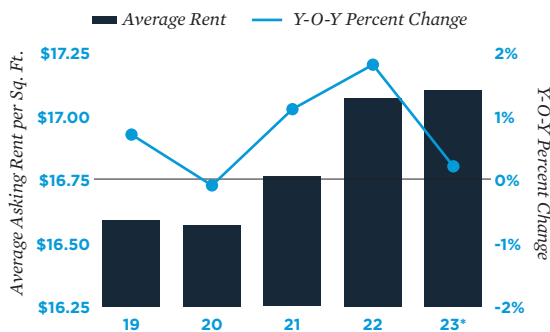
RENT:

The average asking rent will log a nominal adjustment this year, shifting up to \$17.10 per square foot. This rate will be just 3 percent higher than the 2019 mark. Still, Cleveland keeps the highest metric among Ohio metros.

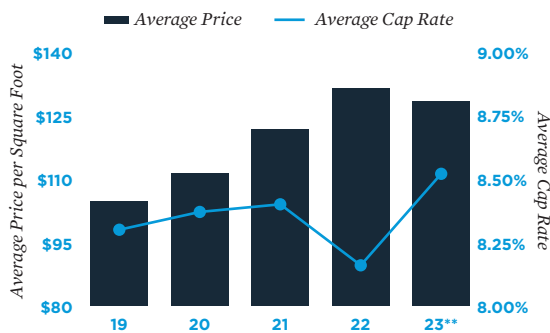
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

380,000 sq. ft. completed

- Deliveries during the trailing 12 months were relatively sparse as inventory expanded by 0.3 percent. Portage County received the greatest volume of new space as 100,000 square feet came online here.
- Inventory in the CBD grew by just 50,000 square feet; however, this represented the first meaningful stock expansion here since 2019.



VACANCY

80 basis point increase in vacancy Y-O-Y

- In the second quarter, vacancy reached 12.1 percent. While the rate is a seven-year high, it is just 10 basis points over the metro's long-term mean.
- Southwest Cleveland was the only submarket with more than 8 million square feet of inventory that logged vacancy under 10 percent in June. East Cleveland was the only such area to note a year-over-year rate decrease.



RENT

0.0% change in the average asking rent Y-O-Y

- The average metro asking rent was static at \$16.95 per square foot during the trailing four-quarter span.
- In the CBD, the average asking rent fell 1.9 percent year-over-year to \$18.39 per square foot. On the other hand, the mean suburban metric rose 2.4 percent, reaching \$15.97 per square foot.

Investment Highlights

- Transaction activity fell in the first half of this year compared to the highs recorded in 2021 and 2022. Trading from January through June 2023, however, was similar to deal flow observed in 2019. Sales widely took place in the \$1 to \$10 million price tranche as private buyers remained active. Investors engaged with the market above the \$10 million mark predominantly maintained a wait-and-see approach. Accordingly, the average price per square foot in Cleveland adjusted minimally over the trailing 12-month period, with the metro yet to see a major price recalibration.
- Several properties traded in and around downtown for their redevelopment potential. Buyers continued to target assets along the waterfront in Westlake and Lakewood. Outside of the CBD, Class B properties in Beachwood changed hands well-below the metro's mean sale price, which was \$128 per square foot during the trailing 12 months ended in June.
- Medical office sales accounted for over half of the trades in the first eight months of the year as several portfolio sales took place, involving both out-of-market public REITs and owner-users. The properties were located across Cleveland, but were all typically top- or mid-tier assets.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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